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Industrial Policy: Impossible, But Indispensable

by Craig Berry¹

The term ‘industrial policy’ has not aged well. It was once obvious that it denoted measures to support industrial development, chiefly in manufacturing industries, within economies dependent on agriculture. Although manufacturing rightly remains central to most industrial policy agendas, in advanced capitalist economies it clearly makes no sense for public sector support for the economy to be focused exclusively on manufacturing. Industrial policy has accordingly become all-encompassing – including even agricultural industries – yet, at the same time, almost meaningless.

In recent years a more muscular reimagining of industrial policy has emerged, notably via the World Bank. An influential World Bank paper by Dani Rodrik states that industrial policy “denote[s] policies that stimulate economic activities and promote structural change”.² The reference to ‘structural change’ suggests that industrial policy should be concerned with more than ‘any old growth’. It must be the right kind of economic growth; or, more precisely, industrial policy should ensure that the economy is able to keep growing over the very long term by guiding industry towards new opportunities for capital accumulation.

But how do we know what kind of structural change is necessary? Who decides? While it might seem obvious in hindsight that the public sector’s power and resources should have assisted industrialisation, is it conceivable that might at some point deem structural change unnecessary, and industrial policy therefore redundant? Capitalism clearly cannot survive without myriad forms of state intervention. We need to think of industrial policy not as a discrete attempt to upgrade industry, but rather a permanent (but not unproblematic) feature of economic governance.

The most obvious fault line in the scholarly understanding of industrial policy is the question of whether interventions must be vertical (focused on particular industries or firms) or merely horizontal (supporting the general business environment). In another World Bank paper, Ha-Joon Chang states that industrial policy must involve ‘targeting’, that is, “a policy that deliberately favours particular industries over others, against market signals”.³

Industrial policy should shape as well as frame markets. This is now an uncontroversial position among most economists, and is clearly faithful to industrial policy’s origin story in terms of supporting manufacturing (Chang has consistently and convincingly proselytised the importance of manufacturing industries to economy-wide productivity growth⁴). But the translation of theory into practice is not at all straightforward. It is entirely possible for vertical interventions to be rather conservative, benefiting powerful incumbents rather than genuinely promoting structural change. Equally, a radical horizontal agenda is certainly possible, especially if industrial policy was associated, for instance, with finance sector reform to improve the supply of investable capital

throughout the economy (although the supply routes could also involve targeting particularly important industries).

Conventional wisdom suggests that the UK has a very weak or limited industrial policy tradition. Although there have been periods of history in which this orientation has been challenged, it has been reinforced by the dominant neoliberal perspective in recent decades, which ostensibly eschews interference by the state in market dynamics. Some policy-makers would contend that the UK does practice industrial policy, albeit a horizontal rather than approach. Either way, the effect is the same. The UK economy has failed to adapt sufficiently to deindustrialisation, exacerbating vast inequalities between industrialised regions and London and the South East, which has longstanding strengths in high-value service industries, principally finance. It has seen a related hollowing out of the labour market (with a decline in intermediate-skill and median-earning occupations), developed an ever more precarious trade deficit, and become acutely vulnerable to short-term financial shocks. Relatedly, the UK has failed (or is failing) to establish itself at the front of the so-called ‘fourth industrial revolution’ (encompassing digitalisation, artificial intelligence, etc.), which may ultimately call into question its own status as a first-rank industrial power.

An alternative reading suggests that the UK has pursued a highly interventionist (and vertical) industrial policy agenda in recent decades, albeit one which has focused on finance and related industries, rather than manufacturing.⁵ This is the argument that the financialisation of the UK economy has been a deliberate strategy rather than something that has happened by default in the absence of more traditional industrial policies. Even if we accept this interpretation, it does not substantively alter the nature of the dilemma facing the UK economy – although it does perhaps underline the danger of assuming that it will be easy for a new government to reorient the institutions of the British state towards a more radical industrial policy framework.

The government led by Theresa May has arguably initiated a process of reorientation, via the creation of the Department for Business, Energy and Industrial Strategy (BEIS) and the publication of its industrial strategy white paper.⁶ This agenda had first emerged under the Brown government, after the financial crisis, before being taken forward by the coalition government (under business secretary Vince Cable). It was abandoned in favour of a largely horizontal ‘productivity plan’ focused on deregulation under the brief Cameron majority government, but May – who had quietly supported the Cable agenda – revived it, in line with her apparent commitment to a more inclusive economy after the Brexit vote.

The invocation and institutionalisation of an industrial *strategy* is itself an interesting moment, suggesting an agenda more substantive than simply supporting key industries, but also offering a coherent, long-term plan for economic change. As well as attempting, ostensibly, to move UK industrial policy towards continental-style support for high-value manufacturing, the industrial strategy also defines four ‘grand challenges’, and seeks to focus additional support for R&D on industries related to these challenges. There are of course questions about whether the strategy is sufficiently resourced to meet its objectives (it is not, but it’s a start), but also thornier issues around the institutional vehicles through which the strategy will be delivered. A lack of genuine institutional change – and even the further privatisation of economic governance, through business-led sector deals – will dampen the radical potential of the May government’s industrial strategy.

However, we should not simply assume that a souped-up version of the May government's approach will be sufficient to address the malaise and chronic inequalities which characterise the UK economy. Arguably, the Labour Party's current industrial policy agenda can be understood in this way. There are serious question marks about whether it is already too late for the UK to catch up to similar economies in terms of benefiting from the next generation of productive innovation. Brexit could have a catastrophic impact on industrial capacity. Even if the UK could develop high-value manufacturing on a larger scale, there is little reason to believe this would lead to higher-quality jobs or higher earnings for most people in most places. We will need to have a much better approach with regards to supporting the low-value sectors where the majority of people are employed (and upon which high-value industries depend), and an answer to the question of how we decentralise economic policy powers. The latter is necessary to disrupt a finance-centred development model, but will at the same time problematise the delivery of a coherent, national strategy.

A new approach

From a progressive perspective, the dichotomy between horizontal and vertical industrial policy is a false one. We need horizontal interventions that genuinely upgrade the whole economy's productive capacity, and vertical interventions that do more than support powerful incumbents. The revival of industrial strategy in the UK is a useful first step, but also perhaps a mis-step. The creation of a coherent and more long-term approach to the operation of conventional industrial policy would be welcome, but we must go beyond this to reimagine the role and resources of the public sector and democratic institutions in shaping and overseeing the economy's development.

It would therefore be better to think in terms of **strategic economic management**. This entails:

- Understanding the capitalist economy as a set of institutions that can be shaped over time in myriad directions.
- Utilising the state's unique powers of coordination and convening, and its ability to pool risk, create markets and provide public goods, across multiple policy areas and layers of authority.
- A very long-term approach to economic development, focused on transforming our ability to deliver public goods and addressing chronic failings – but acknowledging also how the UK economy relates (or could relate) to the rest of the global economy.

How and where we intervene in the economy cannot focus only, however, in the seemingly high-value activities such as advanced manufacturing industries. The 'everyday' or 'foundational' economy, spanning the public and private sectors, is where the basic needs of society are met: providing care, producing food, maintaining the lived environment (both personal and public spaces), enabling mobility, etc. Such activities are not the source of major productivity improvements – but nor should they be. We certainly need to consider how to disseminate innovation into these areas, but for the purpose of improving resilience rather than profitability per se.

Crucially, these are the activities that allow the rest of the economy – indeed society in general – to function. We need to conceive of the subject of industrial policy as an intricately **layered**

economy, in which the needs of workers, families, and communities are as important as supporting basic science, the energy supply, distributional infrastructure, knowledge-based services, technological development and manufacturing output. The foundational economy is of course also the source of the majority of jobs in the UK; improving working conditions will boost living standards.

Industrial policy cannot be operated solely by central government in a technocratic manner. Even if key central departments had not been ‘captured’ by certain firms and industries, they simply lack the informational capacity to successfully manage such a diverse and troubled economy – most foundational activities, in particular, are highly localised, and should be governed as such. Industrial policy must therefore be **localised**. It must also be **democratised**. To operate an industrial policy without the constant input of workers, entrepreneurs and consumers, etc. would be to entirely miss the point: an industrial policy that is not focused above all on developing the **capabilities** by which individuals contribute to productive activity, broadly conceived, is bound to disappoint.⁷ Localising and democratising finance – specifically, some of the mechanisms by which capital is allocated to productive activity – will be crucial in this regard.

The UK’s highly centralised model of economic governance is part of the problem. But it can also be part of the solution too. If this new approach can be instilled at the Treasury, the department’s authority within Whitehall will help to ensure these principles are embedded throughout the public sector. An independent monitoring body, answerable to parliament – building on what we already have in the form of the Office for Budget Responsibility – can counter-intuitively assist the democratisation of industrial policy by ensuring that governments are accountable for their stewardship of the economy.

We are fortunate also that the devolution of economic powers is already underway, with Treasury backing – although the process will have to be repurposed. A progressive industrial policy can build upon financial bodies such as the British Business Bank, as well as the conventional banks which remain in public ownership. The UK’s highly privatised pensions saving channels – a source of highly inequitable welfare outcomes – can also be mobilised for progressive ends.

Ultimately, an industrial policy which both seeks to build, but also relies upon, individual capabilities must be accompanied by new forms of mobilisation and representation for workers, consumers and savers. The trade union movement has a crucial role to play – but the creeping disappearance and waning salience of trade unions within private sector service-based industries must be reversed as a matter of urgency. Fortunately, this is a mission that can be adopted and addressed from outside government.

Industrial policy in practice

There are few, if any, areas of public policy or public spending that would be untouched by a meaningful, comprehensive industrial policy agenda, from national security and monetary policy (macroeconomic policy is usually considered separate to industrial policy, but clearly the former must be consistent with the strategic ambitions of the latter), to fixing potholes and cleaning services for government buildings.

Most obviously, a progressive industrial policy would have to encompass policy development on energy supplies, competition policy, skills provision, higher education and research, corporate

governance, and employment regulation – among many more issues. This section will highlight just four potential priorities for an incoming administration, focusing on those which typify the broader approach to industrial policy advocated, rather than identifying the industries which should be targeted.

1. Democratising finance

The clamour on the left for new financial institutions to help to rebalance the UK economic model towards productive activity, and away from real estate and the finance industry itself, continues to grow. The two most important sets of proposals relate to a national investment bank (NIB; supporting a network of local or regional banks) and citizens' wealth funds (CWFs; which could also be locally organised). The two ideas are not necessarily mutually exclusive, insofar as the latter could be used to capitalise the former.

The NIB proposal has been advanced most forcefully by the UCL Institute for Innovation and Public Purpose.⁸ It has the benefit of building upon very solid foundations: decades of evidence on the operation of public banks in other countries, public ownership of RBS in the UK, moves towards the creation of public investment banks in Scotland, and the mixed experiences of the UK-wide Green Investment Bank and British Business Bank (which are not really banks!). Essentially, a NIB would invest counter-cyclically to drive innovation in industries deemed essential to the long-term health of the economy, but currently under-served by private finance.

CWFs would utilise public assets or tax revenue streams to invest over the very long-term, supporting industrial development but also generating returns which can be invested in public goods. A slightly more radical version of a CWF would see it capitalised by the socialisation of common resources, such as personal data (so the private enterprises using these resources would have to contribute to the fund).^{9 10 11} While CWFs could invest, like a NIB, to drive innovation, their investment priorities are usually articulated in much broader terms, formed around supporting the development of individual and local capabilities (this idea therefore overlaps with the ideas around the foundational economy and universal basic infrastructure discussed below).

Both sets of proposals raise unanswered questions around funding and governance. A NIB could be funded in many ways, but the various options would have implications for the size, stability and risk appetite of the institution. CWFs claim the mantle of being organised democratically, as well as investing for the public good, but few proposals have yet to produce a satisfactory mechanism for mitigating an elite-led fund management process.

A progressive industrial policy agenda should therefore consider how pensions saving can be used to create new funds for capital investment in productive activity. The UK is in the middle of a transition from collective defined benefit pensions provisions (in which associated funds briefly enjoyed considerable influence within capital markets, but are now focused on managing risks associated with scheme maturity) to individualised defined contribution saving (which is now near-compulsory for employees). The younger age profile of schemes delivering 'automatic enrolment' should enable longer-term, riskier investments, but the individualisation of risk, and recent dismantling of the annuities market, means the investment strategies are likely to become even more conservative.

The vast sums regularly invested in pension schemes means there is a major opportunity here for progressive actors – even a slight reorientation of investment strategies could mean substantially more capital is available to invest in the kind of projects often associated with a NIB or CWFs. Pensions saving directly links individuals to the creation of very large funds for capital investment, and its link to the workplace means savers can, in theory, exercise influence on investment decisions through trade unions. It would of course be right to retort that pensions saving should be used primarily (or exclusively) to fund a decent retirement income – but we should be under no illusion that the current pensions system is likely to achieve this outcome for most workers in the process of being automatically enrolled in poor-quality workplace pension schemes.

Moreover, there is no suggestion here that pension savings should be entirely used to support the industrial policy agenda of the government of the day. There are much more modest ways to achieve progressive outcomes in this area:

- A large-scale move towards ‘collective’ defined contribution saving (supported by the coalition government) would mitigate the inherent conservatism of defined contribution investment decisions.
- The National Employment Savings Trust (NEST), a government-backed defined contribution provider, could adopt an investment mandate with more focus on investing in local areas or productive activities.
- The government’s ‘pot follows member’ approach to the transfer of accumulated funds when savers move jobs could be adapted to enable members to choose to invest dormant savings accounts in a collectivised fund – a reformed NEST or CWF-style bodies could support the delivery of this model.
- Pensions tax relief arrangements could also be used – for instance, by relaxing restrictions on relief for very high earners – to incentivise long-term investment.
- Central government could offer ‘infrastructure bonds’ to enable pension schemes to invest safely in projects that support long-term economic development. Local authorities could also be empowered to offer similar products in order to attract pensions capital to their localities.
- Most innovatively, savers could be offered the opportunity to invest part of their regular savings in supplementary schemes, ideally organised locally, outside the process of conventional pensions saving.

2. The other UBI

One of the most prominent recommendations of the Industrial Strategy Commission (of which I was a member) was that the UK should adopt the principle of ‘universal basic infrastructure’. This notion deliberately riffs off ‘the other UBI’, that is, universal basic income. Yet while some form of citizens’ income may have a role in alleviating poverty, it may at the same time lock in geographical inequalities in earnings. Moreover, the idea is focused only on our ability to consume, rather than our capacity to produce, and may therefore reinforce key elements of the pre-crisis national growth model.

Universal basic infrastructure in contrast is about enabling individuals to contribute productively to the economy. After all, even with higher benefits or a basic income, no individual can buy a transport network or a high quality education system for their town or city – yet these are vital ingredients for enhancing individual capabilities. No part of the UK should be held back by deficiencies in the hard and soft infrastructures required to support productive activities. This means, for instance, a fairer regional distribution of transport investment, an end to broadband blackspots, and regulation that encourages investment in utilities. But it also means access to world-class public services wherever you live in the UK.

The Commission acknowledged that delivering universal basic infrastructure would be a costly endeavour which would, other things being equal, require increases in tax and/or borrowing. Good industrial policy requires a dash of Keynesian macroeconomics. Support for the foundational economy, discussed below, would also overlap significantly with universal basic infrastructure. What the Commission did not reflect upon, however, was the nature of universal basic infrastructure as an individual entitlement, and how it would be enforced and monitored. Clearly, while health and education policy-makers should be represented within industrial policy-making, it would be inappropriate for every policy area related to hard and soft infrastructures to be organised within a single institutional structure.

What is more important is that the principle is established across government at all levels. The most obvious first step would be to expand the remit of the National Infrastructure Commission (NIC), so that this body not only advises in particular projects but regularly appraises government's success in maintaining universal basic infrastructure. Parliamentary oversight of the NIC would increase its connection to ordinary citizens. It would also be crucial that local authorities are represented in the NIC's governance. Since all infrastructure is in practice local, even if particular projects have national significance, the principle of universal basic infrastructure could be written into the mandate of local authorities. As a universal entitlement, national government would ultimately be responsible for the delivering universal basic infrastructure. But the principle could underpin agreements between central and local government around additional infrastructure investments.

3. Fixing the foundational

The notion of the foundational economy has been developed by scholars and practitioners connected to the Centre for Research on Socio-Cultural Change (CRESC) at the University of Manchester. Encompassing the economic activities listed above, CRESC's 'manifesto' outlines the three sets of institutions which dominate the foundational economy:¹²

- The state, locally and centrally – providing or procuring services, regulating quasi-monopolies, and overseeing the planning regulations which partially structure the foundational economy.
- Privatised utilities – private companies, supported by the finance sector, effectively dominated industries such as energy and rail, with profitability guaranteed by (pseudo)contractual relationships with the public sector.

- Supermarkets – large supermarket chains, which have been permitted to dominate every locality, benefit from near-compulsory household spending across a wide range of goods; most obviously, this enables them to control food production.

The manifesto asks:

“[I]s it possible to replumb the supply chains and re-wire the financial circuits of the foundational economy to prevent further deterioration in the composition of employment and create good quality jobs in volume? It is possible to re-create the foundational as a path to economic and environmental sustainability and quality of life rather than a habitat for extractive corporates?”

The answer, for CRESC, lies in the concept of ‘franchising’. Foundational economy business models can be understood as franchises insofar as the permissibility of specific routes to profitability are determined by public sector procurement and a complex regulatory architecture.

So, our task is to socialise the franchise by treating communities – the workers, consumers and ultimately financiers of the foundational economy – as the key stakeholders. Essentially, decisions around procurement, planning and subsidies can include conditions around building and utilising local supply chains, ensuring universal coverage of services, employment conditions, environmental impact, etc. The services in question are likely to always remain labour-intense, and are unlikely to drive productivity growth – industrial policy must not compel them to pursue profitability, an objective which invariably compels the extraction of value from the public realm.

We might also think about using tax measures that reduce the cost of creating higher quality jobs in local economy, or stimulate investment by disincentivising excess profits. Clearly, the institutional mechanisms by which procurement, regulation and tax policy can conform to the needs of the foundational economy largely exist already – in the NHS, local government, utility regulators, bodies such as the Food Standards Agency, etc. The vital shift required is ensuring that the new approach is embedded across multiple institutional spheres.

4. Gender-centred industrial policy

Women are over-represented among many of the industries relevant to the foundational economy and soft infrastructure, and so greater investment in or regulation of these areas is likely to benefit women disproportionately. It is vital, however, that enabling more women to contribute to the economy becomes a central principle of industrial policy, rather than simply a by-product.

Despite much effort by the New Labour government, the gender pay gap remains depressingly large. The median female employee has an hourly rate of pay around 80 per cent of the male hourly rate. The gap is narrowest towards the bottom of the income distribution – but women are more likely to be in low-paid self-employment, as well as to be on zero-hours contracts.¹³ It is perhaps the fact, however, that the pay gap is widest at the top of the income distribution that underlines the wastefulness of the UK’s gender-biased labour market. The absence of women from the best-paid jobs – which contribute more to productivity, as conventionally understood – represents a human capital resource which is being significantly under-utilised. The May government has focused on increasing transparency about the gender pay gap at firm level.

Explicit discrimination is part of the explanation here, but so too are the implications of motherhood. The career breaks associated with starting a family can be incredibly disruptive for mothers' careers, and more than 90 per cent of single parents are women. There have of course been moves recently to increase financial support for childcare, and enable parental leave to be shared with fathers. Yet it is difficult to see initiatives on this scale having a transformative impact on women's career prospects. At the very least, we need a sea-change in childcare provision – significantly increasing quality and reducing cost. There is scope also to significantly strengthen maternity-related employment protections.

Regulating to improve the quality of childcare will have the additional impact of increasing earnings and job quality in an industry overwhelmingly populated by female employees. This is an agenda which should be pursued more generally. Improving the productivity of social care, for instance, will be vital in an ageing society; it will also create better quality jobs for women.¹⁴

It would be impossible to police gender relations within every single company, but government can drive change through its procurement practices. It can also use the leverage of large-scale investments in R&D, and sector-specific investments, to encourage gender equality within strategically important industries. In essence, policies to address gender inequality have to be brought firmly into the industrial policy arena. Rather than the ministerial responsibility for gender equality being tagged onto other ministerial portfolios in an ad hoc manner, for instance, it should represent a dedicated, cabinet-level role within BEIS.

Developmental dilemmas

When industrial policy is conceived as a comprehensive, government-wide agenda, a fundamental dilemma arises: is everything 'economic'? Are there not still public policy goals that should be pursued irrespective of their relation to their contribution to the economy? Arguably, the reduction of all social goods to their (marketised) economic value is one of the hallmarks of neoliberalism. And the health of institutions, such as universities – which play an inimitable, multifaceted role in industrial policy – is being jeopardised by this creeping neoliberalisation.

A progressive approach to industrial policy turns this dilemma on its head. All parts of public policy and public spending should be determined with reference to the industrial policy framework, but only insofar as the strategic ambitions of industrial policy are defined by the social ends, not economic means. Returning to the above example: universities contribute to our economy by being universities, not by fixating on short-term commercial returns. We need to make the economy work, but work for us. Beyond this, there are a series of second-order dilemmas which will require attention as industrial policy in the UK continues to develop.

Firstly, should we prioritise productivity or jobs growth? The UK has a major productivity problem, but the notion that economic policy should be focused predominantly on productivity is self-defeating. It tends to lead to an incredibly narrow industrial policy agenda prioritising only firm-level or individual-level improvements – in the hands of the Cameron majority government a 'productivity plan' meant eschewing interventionism in favour of deregulation and welfare retrenchment. Policy elites obsess over 'the long tail' of small, unproductive firms, but such distributions are normal in service-based capitalist economies. In the UK, the productivity slowdown is actually situated within the largest firms, who are normally more productive than they

have been in recent years.¹⁵ The financialisation of corporate practice has disincentivised investment in innovation.¹⁶

Many would argue, moreover, that the UK's recent productivity stagnation has been a price worth paying for jobs growth. Higher productivity resulting, for instance, from manufacturing automation would reduce the volume of jobs in the economy, and therefore well-being. This fallacious logic has been used to mask the 'hollowing out' of the labour market and proliferation of crap jobs. The left has sought to challenge this trend in relation to low-value services, but is not immune from a misguided fixation on jobs growth. Trade union support for infrastructure projects such as HS2 and Heathrow expansion is motivated by job creation, even though the prioritisation of these initiatives over addressing wider infrastructural dilapidation will reinforce the UK's centralised growth model. And Labour's new 'Build It in Britain' agenda, which promises to 'reshore' manufacturing industries, is not a route to the creation of high-quality jobs, but rather low-value industrial activities, which ironically are at the greatest risk of automation.¹⁷

There is no simple answer to the tension between productivity and jobs. Creating good jobs which genuinely enhance the UK's productive capacity will involve innumerable trade-offs by policy-makers. This is why it is vital that decisions are guided by the correct principles and wider, strategic objectives (and, as discussed below, better data).

Secondly, should industrial policy be framed by 'missions'? Mission-oriented industrial policy potentially offers one way out of the first dilemma, since the right intervention will be the one that best advances the established mission (higher productivity and more jobs would both, ideally, be by-products, to varying degrees). On the other hand, invoking missions perhaps simply ducks the need to consider the real-world implications of industrial policy (non)interventions for people and communities, in favour of abstract technology-related ambitions. Currently Labour policy has arguably fallen into this trap, particularly in relation its R&D spending target of 3 per cent of GDP by 2030 (almost double the current rate, and significantly above the OECD average). This is entirely unachievable, and pursuing it might mean diverting resources from more critically important areas (especially those which might create jobs).

The Industrial Strategy Commission adopted a variation on a mission-based approach by outlining a series of 'strategic economic goals', which included social as well as economic goods. Clearly, however, goals such as decarbonisation and developing a sustainable care system can be understood as mission-oriented. There is a strong case for the adoption of such cross-governmental missions, especially insofar as they act (by design) to disrupt established institutional silos. Yet the May government's appropriation of a mission-oriented industrial policy, in the form of its 'grand challenges' leans towards technological fetishism.

Thirdly, will devolution make a national strategy undeliverable? In a way, yes; but that is not necessarily a bad thing. The much stronger continental industrial policy tradition is managed via a much more decentralised policy-making framework. And if the foundational as well as high-value economy is to become a focus for industrial policy, more robust forms of local economic governance are paramount. Of course, there is a risk that devolution in its current form would be a barrier to industrial policy for a progressive government, since its flawed logic appears to be pushing localities down a low-tax, deregulatory path, overly dependent on overseas investment, and disincentivising co-operation across localities.

Finally, will Brexit enable a more interventionist industrial policy? In a word, no. The notion that ‘state aid’ rules represent a barrier to industrial policy, even radical initiatives such as public investment banks, is nonsensical.¹⁸ Brexit will decimate what is left of the UK’s manufacturing capacity by severing links to transnational production networks. The complacency on some parts of the left about free trade arrangements is misguided and anachronistic. While concerns about the EU’s own trade agenda in relation to deals with the United States, Canada and Japan are justified, economic activity *within* the single market is highly integrated, on the basis of regulatory harmonisation, and there is simply no path to reintegrating the UK into this system (and achieving ‘the exact same benefits’) that does not involve membership. Brexit could leave Labour’s plans for a new industrial policy, however they develop from this point on, ‘dead on arrival’.¹⁹

The first 100 days

Even if a general election were to be called in the very near future, and even if it were deemed desirable, it would not be possible to tear up the May government’s fledgling industrial strategy, at least not without putting a lot of valuable R&D activity, and some high-value jobs, in jeopardy. Indeed, one of the most important tasks for a new government will be addressing some of the drift now evident in coalition era initiatives such as catapult centres. We cannot afford to lose any institutional capacity until such initiatives have been genuinely evaluated.

A more ambitious, progressive industrial policy agenda will take much longer to construct. It goes without saying that Brexit will be at the top of the to-do (or not-to-do) list, if there remains any scope for an alternative approach. One of the earliest priorities should also be agreeing new metrics for the appraisal of economic success – supplementing rather than replacing GDP, productivity and employment measures, and developing metrics related to specific strategic goals. This effort must also be accompanied by the creation of much more detailed data sets on industrial composition and performance, especially in local areas.

A new government can also move swiftly to remake the institutional order through which industrial policy is devised, at least in terms of political institutions. It would be highly likely to encounter resistance within the Treasury, but fears about ‘deep state’ forces underplay the extent to which elected government can, in time, shape the personnel and culture of Whitehall departments – it is simply that, in the case of the Treasury, most Chancellors choose not to.

That said, the Treasury is packed with dedicated and intelligent officials. One of the reasons the Treasury tends to resist industrial policy interventionism is the cost of vertical initiatives – but a new approach based on regulating rather than stimulating economic development, and shaping the circuits of private capital as well as providing public finance, will mitigate its objections. The Treasury also tends to fear being usurped in economic policy-making by the business or industry department of the day. It makes sense in terms of policy to build a new industrial policy from within the Treasury, so that it is owned by the key seat of Whitehall power, but it would be politically sage too. By reforming the Treasury in the process – establishing new industrial policy capacity, overseen by representatives of all relevant departments and local government – the next government will not only have an immediate impact on economic policy, but one which have a lasting significance on the character of economic statecraft in the UK.

There will likely be some resistance from other relevant bodies, particularly those outside direct government control, who have become accustomed to a neoliberal policy framework. A greater threat to progressive industrial policy in the long term, however, will come from the governance of any new institutions that a radical government establishes, such as new finance institutions and regulators for the foundational economy. However well-intentioned their objectives, the risk of supplementing one policy elite with another is high. Genuinely involving both parliament and local authorities in governance processes will be a vital bulwark against conservatism and cronyism, and a clear signal that industrial policy is designed to empower ordinary citizens.

The structure of local government in the UK is of course a long way from being settled. It is not possible or advisable for central government to dictate exactly how local and regional authorities should be configured in every area, other than to say that, for the most part, current configurations are dysfunctional. Local policy elites are vital to the successful delivery of industrial policy, but local government has more perches than powers, so there may be multiple sources of discord insofar as a new government seeks to question existing institutions. Again, reform must be motivated by democracy. Simply seeking to replace one technocratic approach with another is a recipe for wasteful conflicts. But reforms which seek to build capacity while empowering local citizens have a greater chance of succeeding.

As argued in the previous section, the idea of reforming pensions saving to ensure a greater supply of capital for (local) productive activity probably avoids the funding and governance dilemmas which problematise proposals for a national investment bank or citizens' wealth funds. But since some of the proposed mechanism would (partially) replace, rather than simply supplement, existing financial industry, there is likely to be opposition from the private pensions industry. This can be mitigated by designing policies which disrupt existing investment practice only marginally in the short term – reorienting only a slither of savings being accumulated could have a transformative impact in terms of industrial development. Moreover, since pensions capital is, ultimately, workers' capital – this is one of the benefits of focusing on pensions provision to democratise finance – it will be important to ensure scheme members are supportive of, and help to co-produce, any institutional changes.

Getting there

The vision of industrial policy outlined here is unlikely to succeed without fresh thinking on three core dimensions. There are few international precedents on how these challenges might be met – they speak directly to peculiarities of the UK's economic malaise. Firstly, we need a new vision for transnational political and economic integration after Brexit, central to which will be a partnership with the continuing EU. Secondly, we need to develop a much more detailed picture of the UK's layered economy, particularly how the layers interact within particular localities. Thirdly, we need to consider how best to combine strategic leadership by the state with the imperative to thoroughly democratise economic governance in the UK.

The political movement required to tackle these challenges is easy to imagine, but we must be clear that it has yet to materialise. There is an inherent affinity between progressive politics and industrial policy, since both are motivated ostensibly by the objective of managing capitalism in service of collective or public goods. This is an impossible job, since capitalism invariably overcomes political constraints; the notion that there is a single way to permanently shackle capitalism, or a single

political cadre suitable to the task, is a dangerous delusion. But it is also an indispensable function of collectivist political movements.

The capitalist dynamics confronting the left now are new and, in global terms, rapidly evolving. We cannot rest upon a vision of industrial policy whereby we create good jobs by simply boosting manufacturing industries. This does not mean that (advanced) manufacturing is not essential to the UK's economic prospects. But just as manufacturing companies are increasingly finding value by offering services, we also need to think about how to make the everyday practice of manufacturing (rather than simply the sector) central to our largely service-based economy, by supporting wherever possible the integration of craft production, growing and cultivation, and the dissemination of engineering expertise into service sector occupations.

In general, the progressive movement needs to greatly increase its links to four distinct (but overlapping) political forces, in order to build the movement necessary to win power, but also a sustainable governing project with progressive industrial policy at its heart:

- The working class, particularly young, precarious workers who have largely forgone the trade union movement. The Labour Party's support among the working class is now perilously low, yet there are few signs that the party has a coherent plan for reversing this trend.²⁰
- Local and devolved government leaders: the national industrial policy agenda must be co-produced above all with local authorities and mayoral offices. Amplifying the voice of the local at the centre is essential for policy effectiveness, but also for building an enduring agenda.
- Some of the most innovative and radical thinking about industrial policy in the UK emanates from the green movement. Given that addressing climate change will be perhaps the defining economic challenge of the foreseeable future, progressives can benefit from a genuine partnership with the green movement.
- There remains an uneasy truce between the current Labour leadership and feminist campaigners, brokered by mutual opposition to austerity. Devising industrial policy interventions alongside those focused on the burden of care (paid and unpaid) on women, or the implications of motherhood on women's career prospects offers the prospect of a more productive partnership.

This would represent a coalition animated by a far wider array of issues than industrial policy. But that, precisely, is the point: a progressive and sustainable industrial policy agenda can only succeed if it is based upon a comprehensive and sophisticated understand of the infinite number of ways in which economy and society interact, and encompasses initiatives designed explicitly to improve economic performance by enhancing individual and social capabilities across all spheres.

Endnotes

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